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THE FEIGHNER RESEARCH INSTITUTE  
YEARS ENDED NOVEMBER 30, 1996 AND 1995

CONTENTS

	<u>Page</u>
Accountant's review report	1
Financial statements:	
Balance sheets	2
Statements of income	3
Statements of shareholders' equity	4
Statements of cash flows	5
Schedules of general and administrative expenses	6
Notes to financial statements	7-8

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# **DEREZIN, BREIER & C O M P A N Y**

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February 5, 1998

Board of Directors  
The Feighner Research Institute  
La Mesa, California

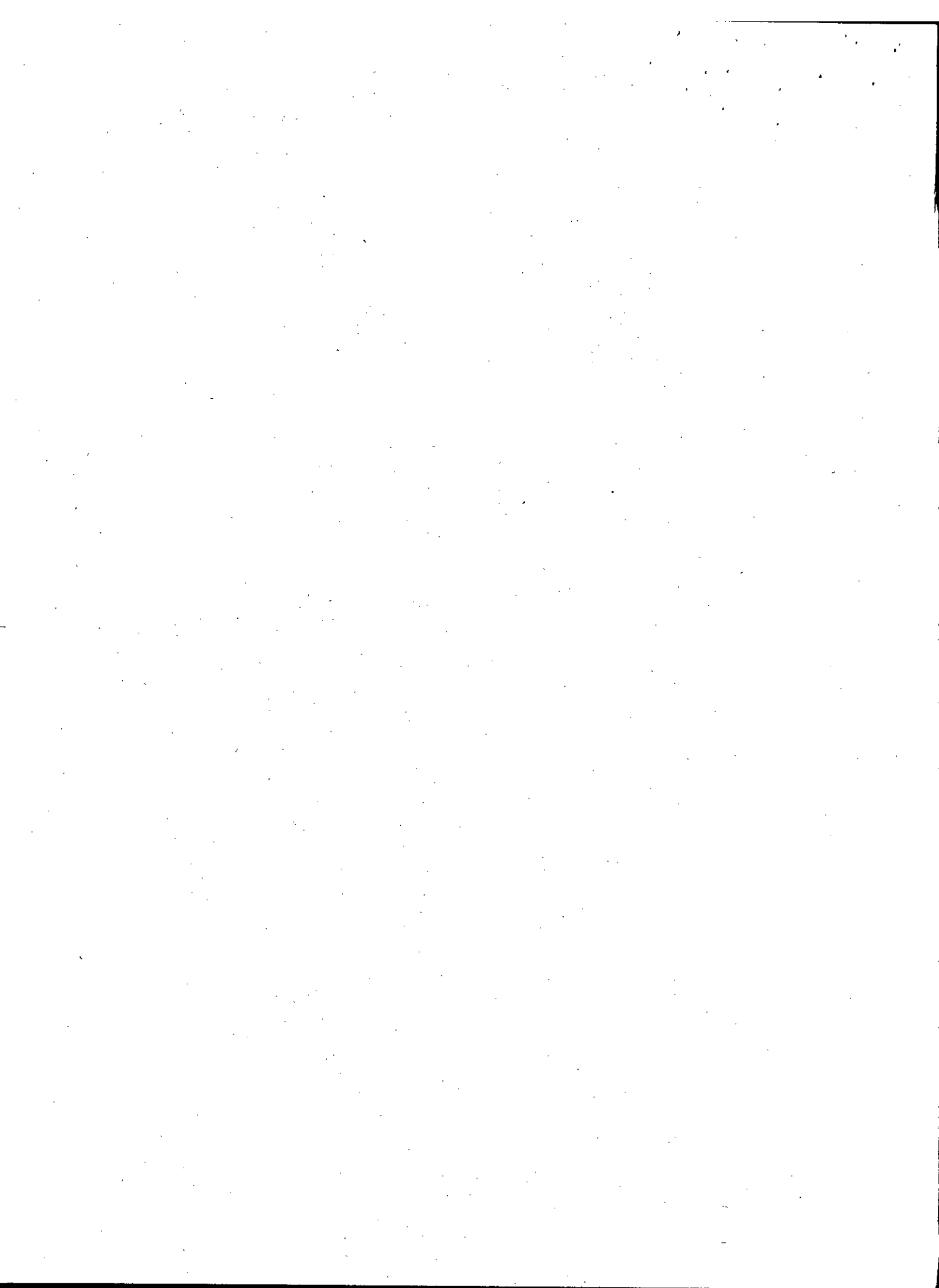
We have reviewed the accompanying balance sheets of The Feighner Research Institute as of November 30, 1996 and 1995, and the related statements of income, shareholders' equity, cash flows and schedules of general and administrative expenses for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The Feighner Research Institute.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.



DEREZIN, BREIER & COMPANY



THE FEIGHNER RESEARCH INSTITUTE  
BALANCE SHEETS  
NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

ASSETS	1996	1995
Current assets:		
Cash	\$ 561,843	\$ 782,357
Accounts receivable	312,606	23,289
Government bond fund	264,455	264,455
Other receivables and prepaid expenses	11,831	2,904
Income taxes prepaid	4,201	
Total current assets	<u>1,154,936</u>	<u>1,073,005</u>
Property and equipment:		
Furniture and fixtures	31,717	36,639
Equipment	90,065	71,453
Leasehold improvements	21,822	21,822
	143,604	129,914
Less accumulated depreciation	<u>70,854</u>	<u>79,586</u>
Total property and equipment	<u>72,750</u>	<u>50,328</u>
Other assets:		
Security deposits	6,232	6,232
	<u>\$ 1,233,918</u>	<u>\$ 1,129,565</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,027,944	\$ 934,565
Income taxes		585
Total current liabilities	<u>1,027,944</u>	<u>935,150</u>
Shareholders' equity:		
Common stock, no par value, authorized 75,000 shares: issued and outstanding 1,000 shares	4,250	4,250
Retained earnings	201,724	190,165
Total shareholders' equity	<u>205,974</u>	<u>194,415</u>
	<u>\$ 1,233,918</u>	<u>\$ 1,129,565</u>

See notes to financial statements.



THE FEIGHNER RESEARCH INSTITUTE  
STATEMENTS OF INCOME  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

	1996		1995	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Grant income	\$ 1,852,615	100.0	\$ 1,871,896	100.0
Direct costs billed and research income	<u>15,592</u>	<u>.8</u>	<u>7,457</u>	<u>.4</u>
	<u>1,868,207</u>	<u>100.8</u>	<u>1,879,353</u>	<u>100.4</u>
Direct expenses:				
Medical evaluations, physicians	365,128	19.7	412,515	22.0
Hospital expense	182,450	9.9	262,650	14.0
Research expense	24,759	1.3	12,021	.7
Laboratory and scan costs	<u>56,774</u>	<u>3.1</u>	<u>54,365</u>	<u>2.9</u>
	<u>629,111</u>	<u>34.0</u>	<u>741,551</u>	<u>39.6</u>
Grant income less direct expenses	1,239,096	66.8	1,137,802	60.8
Interest income	<u>39,958</u>	<u>2.2</u>	<u>31,390</u>	<u>1.7</u>
	1,279,054	69.0	1,169,192	62.5
General and administrative expenses	<u>1,262,483</u>	<u>68.1</u>	<u>1,138,543</u>	<u>60.8</u>
Income before income taxes	16,571	.9	30,649	1.7
Income taxes, current	<u>4,012</u>	<u>.2</u>	<u>7,145</u>	<u>.4</u>
Net income	<u>\$ 12,559</u>	<u>.7</u>	<u>\$ 23,504</u>	<u>1.3</u>

See notes to financial statements.





THE FEIGHNER RESEARCH INSTITUTE  
STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

	Common Stock Outstanding	Common Stock	Retained Earnings	Total
Balance, November 30, 1994	1,000	\$ 4,250	\$ 171,661	\$ 175,911
Net income for the year			23,504	23,504
Dividends paid	_____	_____	(5,000)	(5,000)
Balance, November 30, 1995	1,000	4,250	190,165	194,415
Net income for the year			12,559	12,559
Dividends paid	_____	_____	(1,000)	(1,000)
Balance, November 30, 1996	<u>1,000</u>	<u>\$ 4,250</u>	<u>\$ 201,724</u>	<u>\$ 205,974</u>

See notes to financial statements.



THE FEIGHNER RESEARCH INSTITUTE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

	<u>1996</u>	<u>1995</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,559	\$ 23,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20,879	13,851
(Increase) decrease in:		
Accounts receivable	(289,317)	143,078
Other receivables and prepaid expenses	(8,927)	4,571
Security deposits		390
Increase (decrease) in:		
Accounts payable	93,379	164,335
Income taxes	<u>(4,786)</u>	<u>95</u>
 Net cash provided by operations	 <u>(176,213)</u>	 <u>349,824</u>
 <b>Investing activities:</b>		
Purchase of property and equipment	<u>(43,301)</u>	<u>(19,146)</u>
 <b>Financing activities:</b>		
Dividends paid	<u>(1,000)</u>	<u>(5,000)</u>
 Net increase/decrease in cash	 (220,514)	 325,678
 Cash beginning	 <u>782,357</u>	 <u>456,679</u>
 Cash ending	 <u>\$ 561,843</u>	 <u>\$ 782,357</u>
 <b>Supplemental disclosures of cash flow information:</b>		
 Income taxes paid during year	 <u>\$ 8,798</u>	 <u>\$ 2,160</u>
 Interest paid during year	 <u>\$ - 0</u>	 <u>\$ - 0</u>

See notes to financial statements.



THE FEIGHNER RESEARCH INSTITUTE  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

	1996		1995	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Administrative salaries and fees	\$ 740,549	40.0	\$ 636,961	34.0
Automobile expense	1,977		671	
Pension plan contributions, administrative	35,996	1.9	76,993	4.1
Compensation and reimbursement	27,403	1.5		
Contract services	48,519	2.6	22,812	1.2
Contributions	1,780		585	
Depreciation	20,879	1.1	13,851	
Dues and subscriptions	1,412		638	
Education and training	504		2,096	
Employee benefits	13,669		13,201	
Equipment rental	612		3,161	
Insurance	44,887	2.4	39,203	2.1
Legal and accounting	9,573		7,724	
Miscellaneous	735		2,950	
Moving expenses			2,904	
Patient recruitment	78,337	4.2	107,907	5.8
Payroll taxes	44,601	2.4	47,863	2.6
Postage and supplies	53,047	2.9	31,577	1.7
Promotion and advertising	8,047		2,826	
Rent and utilities	107,267	5.8	95,933	5.1
Repairs and maintenance	3,155		8,826	
Storage	2,320		2,651	
Taxes and licenses	1,413		907	
Telephone	12,447		13,951	
Travel expenses	3,354		2,352	
	<u>\$ 1,262,483</u>	<u>68.1</u>	<u>\$1,138,543</u>	<u>60.8</u>

See notes to financial statements.



THE FEIGHNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

1. Summary of Significant Accounting Policies:

Operations:

The Company performs drug studies for various pharmaceutical manufacturers. Grant income is taken into account as earned in the performance of the various drug studies by evaluating the level of completion of the individual study. The Company generally receives payments in advance of services that it performs. These prepayments are included in accounts payable.

Pension Plan:

The Company has a noncontributory defined contribution pension plan covering all full-time employees with one or more years of continuous service. Contributions are made in accordance with the provisions of the pension plan. The Company's policy is to fund pension plan costs accrued.

Cash Equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no cash equivalents at November 30, 1996 and 1995. Cash consists of cash on hand and cash in banks, including money market funds, as of November 30, 1996 and 1995.

Accounts Receivable:

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Investments:

The government bond fund is classified as available-for-sale and may be sold in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities should be carried at fair value. The government bond fund is being carried at cost which approximates fair value at November 30, 1996 and 1995.

Compensated Absences:

Employees of the Company are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when paid to employees.





THE FEIGHNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEARS ENDED NOVEMBER 30, 1996 AND 1995  
(See Accountant's Review Report)

1. Summary of Significant Accounting Policies: (continued)

Property and Equipment and Deprecation:

Property and equipment are stated at cost. Depreciation or amortization is provided on a straight-line or an accelerated declining balance method, as appropriate, over the estimated useful lives of the assets.

Concentration of Credit Risk:

The Company places its cash and temporary cash investments with high credit quality institutions. At times such cash and temporary cash investments may be in excess of FDIC insurance limits.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Commitments:

The Company has commitments under noncancellable operating leases pertaining to the rental office and consulting rooms. Rents aggregated \$107,000 in 1996 and \$96,000 in 1995. The total lease commitment is as follows:

Year Ending November 30.

1997

\$ 19,000

